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| In the Matter of | ) | |
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| Support Material for Carriers to File | ) | |
| to Implement Access Charge Reform | ) | |
| Effective January 1, 1998 | ) | |
| | ) | |
| BellSouth Telecommunications, Inc. | ) | Transmittal No. 434 |
| Revisions to Tariff F.C.C. No. 1 | ) | |

**REPLY OF BELLSOUTH TELECOMMUNICATIONS, INC.**

**BELLSOUTH TELECOMMUNICATIONS, INC.**

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## SUMMARY

In this Reply, BellSouth responds to the petitions and comments filed with the Commission regarding its January 1, 1998 implementation of requirements established in the Commission's Access Reform Order. BellSouth demonstrates that commenters have provided no basis for the suspension and investigation of BellSouth's tariff filing which they seek.

First, BellSouth discusses line demand matters raised by commenters. BellSouth demonstrates that many of their allegations regarding mismatched demand relate to commenters' failure to review BellSouth's filing closely, or a misunderstanding thereof. In addition, BellSouth shows that the Commission's rules themselves support BellSouth's handling of PICC and EUCL charges as they relate to official BellSouth lines, as well as the application of end user access charges to ISP lines and the application and then crediting of EUCL charges for Lifeline lines. BellSouth notes an error which it has discovered in its residential line counts and indicates that this same day it is filing tariff revisions with the corrected counts, as well as updated line demand for both residential and business lines to reflect a recent review of company records.

BellSouth also discusses the various matters raised by commenters regarding removal of amounts from the TIC. BellSouth corrects errors made by commenters regarding the tandem to TIC factor; shows that BellSouth has removed appropriate amounts from the TIC, including for common transport, SS7, and tandem trunk ports; demonstrates that application of amounts to the existing TIC, rather than the June 30, 1997 TIC, are appropriate; and explains that no zone differentiation cost move was required to be made by BellSouth in this filing.

Finally, BellSouth discusses various matters raised by commenters regarding local switching costs. BellSouth explains the manner in which costs to be moved from local switching

were developed and shows that these cost methodologies are sound. Moreover, the removal of such costs from local switching based upon a revenue requirement calculation rather than proportional revenues is consistent with Commission rules and existing precedent. BellSouth has, however, identified an error in the manner in which ISDN line port costs were determined and indicates that it is filing the necessary revisions in a tariff filing being made this same date.

In sum, BellSouth fully responds to the commenters and has demonstrated that no basis for the requested suspension and investigation exists. The Commission should, therefore, permit BellSouth's tariff, as modified by the aforementioned revisions, to take effect on January 1, 1998, as presently scheduled.

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| BellSouth Telecommunications, Inc. Revisions to Tariff F.C.C. No. 1 | ) ) | Transmittal No. 434 |

## REPLY OF BELLSOUTH TELECOMMUNICATIONS, INC.

BellSouth Telecommunications, Inc. ("BellSouth") hereby submits its reply to the pleadings filed by AT&T Corp. ("AT&T"), MCI Telecommunications Corp. ("MCI"), and Sprint Communications Company, L.P. ("Sprint") (all of which are jointly referred to hereinafter as "commenters") regarding the above-captioned tariff transmittal and supporting materials.[1]

## I. INTRODUCTION

With this Reply, BellSouth responds to the various challenges lodged by the commenters against BellSouth's Transmittal No. 434, in which BellSouth has implemented those changes required to be effective January 1, 1998 under the Commission's new access reform and price cap rules.[2] As is demonstrated herein, commenters provide no basis for a suspension and investigation of BellSouth's tariff.

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1 AT&T filed a "Petition and Comments" ("Petition"), MCI filed both a "Petition to Suspend and Investigate" ("Petition") and "Comments" ("Comments"), and Sprint filed "Comments" ("Comments"). AT&T's Petition was filed one day late, on December 11, 1997.

2 In the Matter of Access Charge Reform, CC Docket No. 96-262, First Report and Order (FCC 97-158), released May 16, 1997, as amended ("Access Reform Order").

Commenters use extreme and exaggerated language to criticize LECs' cost support and tariff filings in general, and this must be recognized for the empty rhetoric that it is. For instance, commenters attempt to call into question LECs' filings on the basis of the anti-competitive incentives which commenters believe have motivated LECs in preparing their filings, and yet they fail to demonstrate, at least insofar as BellSouth is concerned, that BellSouth violated any Commission rule or order, established any unreasonable practice or charge, or that an investigation is called for. Indeed, a careful reviewer of the comments and petitions will note that only a few of the issues raised by commenters relate at all to BellSouth and that, in several respects, commenters agree that BellSouth has properly implemented the Commission's new rules.

In the sections which follow, BellSouth addresses all matters which commenters raise in connection with BellSouth's filing and demonstrates that there is no basis for the requested suspension and investigation of BellSouth's filing. In the hope and expectation that the Commission will make a complete but speedy review of BellSouth's filing and permit it to take effect on January 1, 1998 as scheduled, without investigation, BellSouth has organized this reply in a logical, straightforward, subject-by-subject fashion with the intent to afford the Commission and its staff ready reference to BellSouth's responses to each of the issues raised. Once this Reply is considered, BellSouth believes that the Commission must conclude that BellSouth's filing should be permitted to take effect as scheduled without further change[3] and without suspension and investigation.

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[3] In Transmittal No. 435, being filed this same date, BellSouth is making revisions to its Transmittal No. 434 to update and correct certain line counts and to correct costs associated with ISDN line ports. The line demand revisions are discussed in Section II.D, *infra,* and the ISDN line port revisions are discussed in Section IV.A., *infra*. Also in Transmittal No. 435, BellSouth

## II. COMMON LINE DEMAND

AT&T, MCI and Sprint challenge LECs' line count demand in several respects.[4] As is shown by the following discussion, the commenters have provided no basis for a suspension and investigation of BellSouth's tariff in this regard.

### A. EUCL and PICC Count Variation

MCI states that BellSouth incorrectly shows demand for multiline business ("MLB") PICCs and Centrex PICCs that "far exceed" total MLB EUCL demand.[5] It also states that BellSouth shows demand differences for non-primary residence ("NPR") PICCs and NPR EUCLs.[6] AT&T states that BellSouth's PICC demand is much higher than its EUCL demand.[7] As MCI correctly observed, BellSouth indicated in its filing that the PICC line count includes official BellSouth, *i.e.*, BellSouth Telecommunications, Inc., lines.[8]

This difference in BellSouth's EUCL and PICC line count merely reflects the difference under the Commission's rules as to the lines upon which EUCL and PICC charges are assessed.

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is revising the Universal Service Fund ("USF") exogenous amount to reflect the Commission's recent downward estimate of contribution amounts, *see* Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Third Order on Reconsideration (FCC 97-411), released December 16, 1997; BellSouth is implementing the equal access exogenous cost change required under the Commission's recent annual filing investigation order, 1997 Annual Access Tariff Filings, CC Docket No. 97-149, Memorandum Opinion and Order (FCC 97-403), released December 1, 1997; and BellSouth is implementing the General Support Facilities ("GSF") exogenous cost changes required under the Commission's recent GSF Order, Access Charge Reform, CC Docket No. 96-262, Third Report and Order (FCC 97-401), released November 26, 1997.

4 AT&T at 34-40; Sprint 2-4; and MCI Comments 13-14.

5 MCI Comments at 13.

6 *Id.*

7 AT&T at 37-38 and Exhibit L.

8 MCI Comments at 14.

EUCL charges are to be assessed "upon end users that subscribe to local exchange telephone service or Centrex service to the extent they do not pay carrier common line charges."[9] Carriers other than telephone companies, such as BellSouth, are deemed to be end users. Specifically, the Commission's rules provide:

> [A] carrier other than a telephone company shall be deemed to be an "end user" when such carrier uses a telecommunications service for administrative purposes...[10]

A PICC charge, in contrast, is a charge to be assessed "per line...upon the subscriber's presubscribed interexchange carrier...."[11] As to its official lines, BellSouth is a subscriber of local exchange service and does presubscribe its lines to interexchange carriers.[12] Those interexchange carriers bill BellSouth for the long distance service provided and are free to pass along to BellSouth the cost of the PICC charge along with the charge for the long distance service. Moreover, the assessment of PICC charges for such lines is consistent with the Commission's move to assure recovery of non-traffic sensitive ("NTS") costs of common lines from cost-causers, including the recovery of NTS costs of presubscribed common lines on a flat-rate basis from interexchange carriers to whom those lines are presubscribed. A contrary rule for official lines would merely result in the same costs being assessed to interexchange carriers as a whole through increased minute-of-use carrier common line charges. Given such a result, it is surprising that AT&T and MCI would even challenge BellSouth's filing in this regard.

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9 Section 69.152(a) [emphasis supplied].

10 Section 69.2(m) [emphasis supplied]. Section 69.2(hh) defines "telephone company" as "an incumbent local exchange carrier...."

11 Section 69.153(a) [emphasis supplied].

12 Since BellSouth does presubscribe its lines and is, in any event, not an "end user," the PICC charge for non-presubscribed lines is not assessed to BellSouth.

Sprint contends that BellSouth erred by showing demand for MLB and PRI ISDN lines subject to the PICC as "significantly lower" than quantities of such lines for which the EUCL is assessed.[13] In reaching this conclusion, Sprint compares the quantity shown on line 100 of BellSouth's TRP RTE-1 form for "Multiline Business & PRI ISDN EUCL," 70,269,844, to the amount shown on line 174 of the same form for "Multiline Business & PRI ISDN PICC, 57,128,334. The discrepancy which appears to exist does not. The line 100 amount of 70,269,844 for EUCLs includes within it Centrex lines. BellSouth did not separately show the number of Centrex lines subject to the MLB EUCL charge because there is no separate Centrex EUCL rate element. The line 174 amount of 57,128,334 does not include Centrex lines. Rather, Centrex lines are shown on line 175 as 17,936,373. Centrex lines are shown separately for PICC charges because there is a separate rate element and a unique charge for Centrex PICC charges.[14] When Centrex EUCL line counts are disaggregated from MLB EUCL counts, the results would be as follows:

| | EUCL | | PICC |
|---|---|---|---|
| RTE-1 line 100 (w/o Centrex) | 53,508,685 | RTE-1 line 174 | 57,128,334 |
| RTE-1 line 101 Centrex | 16,761,159 | RTE-1 line 175 | 17,936,373 |
| Total | 70,269,844 | | 75,064,707 |

13 Sprint at 3.

14 Section 69.153(g).

Thus, EUCL line demand is not greater than PICC demand. The opposite is true. The difference is the result of BellSouth's inclusion of official lines in the PICC count and not in the EUCL count, as has been discussed above.

### B. Centrex Line Count

Sprint, referring to BellSouth's TRP CAP-1 form, contends that BellSouth erred by including zero demand for Centrex lines subject to the EUCL, but shows Centrex demand subject to the PICC charge.[15] This apparent discrepancy is not an error in line count demand but merely reflects the fact, discussed in the previous subsection, that the Commission's rules provide for a separate rate element and charge for Centrex PICCs but not for Centrex EUCLs. Indeed, it appears that Sprint failed to read the footnote in BellSouth's TRP, page 1 of 1, which states, "On CAP-1 Line 120, Col. B, the Centrex lines are embedded in the MLB EUCL quantities, therefore they are not shown on lines 130 and 135, Col. b." Indeed, CAP-1 line 530 combines line 120, line 130, and line 135. If the Centrex lines were disaggregated from the EUCL line count, the data would be as follows:

| | EUCL | PICC |
|---|---|---|
| CAP-1, p. 1 of 8, line 120 MLB and PRI ISDN | 53,508,685 | 57,128,334 |
| CAP-1, p. 1 of 8, line 130 Centrex with 9 or more lines | 16,612,683 | 17,787,897 |
| CAP-1, p. 1 of 8, line 135 Centrex with less than 9 lines | 148,476 | 148,476 |
| Total | 70,269,844 | 75,064,707 |

As indicated previously, the discrepancy is the result of the official line demand appearing in the PICC count but not the EUCL count.

15 *Id.*

### C. ISDN BRI Line Count Removed from Multiline Business Demand

The Commission's new rules establish a separate rate category for EUCL charges for ISDN-BRI.[16] The EUCL charge cap for ISDN-BRI is established at the same level as for NPR lines, which, for BellSouth, is $5.00.[17] AT&T contends that LECs, including BellSouth, identified ISDN BRI line demand as coming from existing primary residential ("PR") line demand rather than from existing MLB demand "[b]ecause the Commission concluded that the ISDN-BRI services are generally used by individuals and small businesses."[18] AT&T is incorrect.

In determining the ISDN-BRI line count, BellSouth used its Customer Records Information System ("CRIS") billing records which have indicators showing what lines are ISDN-BRI lines. The majority of the ISDN-BRI lines (320,699) were being billed the MLB EUCL rate, while some 105,725 were being billed the PR line EUCL rate. The former line count, 320,699, was therefore appropriately removed from MLB line count demand, and the latter line count, 105,725, was properly removed from the PR line count.[19] AT&T's contention that BellSouth somehow erred here is baseless.

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16 Section 69.152(l).

17 *See Id.*, which states, "Beginning on January 1, 1998, local exchange carriers shall assess no more than one end user common line charge as calculated under the applicable method under paragraph (e) for Basic Rate Interface integrated services digital network (ISDN) service." Section 69.152(e) establishes the cap for NPR lines at the lower of the maximum charge under 69.152(b) or $5.00.

18 AT&T at 35.

19 These quantities are displayed in BellSouth's Transmittal No. 434 in Appendix A, Workpaper DEM-4, lines 3 and 4.

### D. Non-Primary Residential Line Demand

AT&T contends that LECs' counts of NPR lines must be incorrect because the demand is much lower than AT&T's expectations.[20] Whatever the source of AT&T's expectation, it was simply a wrong one as far as BellSouth's line counts are concerned. In fact, BellSouth has identified an error in its NPR line count resulting in an overestimation in the number of such lines. As a result, the PR line count should be increased, and the NPR line count should be decreased.

For purposes of the instant tariff filing, BellSouth used information from CRIS to determine additional residential line quantities. A separate Field Identifier ("FID"), "ADL" for "additional," appears on these records in connection with certain local exchange service programs. The ADL FID is placed on a residential line for any lines in addition to the first line placed at that premises. BellSouth's filed NPR line demand was based upon the appearance of the ADL FID. BellSouth has identified an error in the filed quantities, however, which resulted in an overstatement of NPR demand in the amount of 325,987. BellSouth's filed NPR quantities were calculated using a factor representing the number of ADL lines to PR lines (excluding Lifeline lines) for 1996, and the factor was incorrectly applied to all PR lines (including Lifeline PR lines). Although this factoring step was unnecessary due to the fact that BellSouth had the actual quantities of ADL lines for 1996 from which the factor was derived, the factoring process was nevertheless used. When the factoring error is corrected, the resulting quantity of ADL lines is the same as the actual 1996 quantity of ADL lines shown by BellSouth's records.

In addition, in connection with the establishment of the new NPR EUCL and PICC rate elements, BellSouth has conducted a review of company CRIS and network records to assure

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[20] AT&T at 39.

accurate line counts. Based upon the results of that review, which has now been completed, it is apparent that BellSouth's filed NPR line count is overstated in the amount of 890,850, and the filed PR line count is understated in like amount.

The cumulative effect of correcting both of these errors is to subtract 1,216,837 from NPR line count and to add the same amount to the PR line count. This correction is being made in BellSouth's Tariff Transmittal No. 435, to be filed on the same date as this Reply.[21]

As a related matter, AT&T suggests that the Commission should eliminate the separate NPR charges and treat all residential lines as PR lines.[22] This, however, is not a matter to be determined in this tariff proceeding, but rather is a subject which is appropriately before the Commission in a separate rulemaking proceeding.[23] The issue here is whether BellSouth's tariff filing comports with the existing rules requiring the assessment of separate EUCL charges and PICC charges to NPR lines, and, as BellSouth's tariff does, no basis for a suspension or investigation exists in this regard.

**E. Lifeline Reduction Program**

AT&T makes one brief statement which implies that BellSouth has somehow incorrectly implemented the Commission's Lifeline program. It states,

> ...BellSouth's Tariff No. 1 (at pages 4-5, Item 4.6M) specifies a reduction of $3.50 for the SLC charge for certain customers. This reduction effectively cancels out the SLC charge as to those customers. The Commission should therefore suspend BellSouth's tariff.[24]

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[21] BellSouth has also determined that the filed MLB line count is understated and the filed single line business ("SLB") line count is overstated due to the incorrect assessment of the SLB rate to some lines which should have been assessed the MLB rate. BellSouth is also revising these line counts in the tariff filing being made this same date.

[22] AT&T at 39.

[23] Defining Primary Lines, CC Docket No. 97-181, Notice of Proposed Rulemaking (FCC 97-316), released September 4, 1997.

[24] AT&T at 38.

BellSouth is unable to discern from this statement just what it is that AT&T believes is incorrect. With the cited tariff provision, BellSouth is merely implementing the Commission's Lifeline program by providing for a $3.50 credit for qualifying Lifeline subscribers. This provision is fully consistent with the Commission's Lifeline rules which provide, in pertinent part, that "[t]he federal baseline Lifeline support amount shall equal $3.50 per qualifying low-income consumer."[25] The only changes made by BellSouth to this provision in the instant filing were to clarify that the $3.50 EUCL charge applies but is then credited and to add two states to the program so that the credit is now offered in all of the nine states in BellSouth's operating territory. Obviously the charge is applied and then reduced, or credited, as that is the essence of the Commission's Lifeline program. Thus, contrary to AT&T's brief statement, this tariff provision, as modified by BellSouth in this instant tariff filing, provides no basis for the suspension advocated by AT&T.

**F. ISP Lines**

Sprint contends that PICC charges should not be assessed on lines provided to information or enhanced service providers ("ISPs").[26] It refers to the Commission discussion in the Access Reform Order regarding the exemption of ISPs from access charges[27] as support.

Contrary to Sprint's contention, however, PICC charges do apply for ISP lines. The Commission's Access Reform Order states clearly that the "existing pricing structure for ISPs should remain in place"[28] and that "ISPs should remain classified as end users for purposes of the

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25 Section 54.503.

26 Sprint at 2.

27 Access Reform Order, ¶¶ 344-348.

28 *Id.*, ¶ 344.

access charge system."[29] Thus, ISPs should continue to be assessed all charges which are assessed to end users. This includes EUCL charges which are to be assessed upon end users,[30] as well as PICC charges where the local exchange service line has not been presubscribed to an interexchange carrier.[31] Sprint's contention that PICC charges do not apply to ISP lines (where the line is not presubscribed) is directly contradictory to the Commission's conclusion that ISPs are to be continued to be treated as end users.

Similarly, if Sprint is contending that interexchange carriers should not be assessed access charges for the access services utilized in providing service to an ISP, Sprint is similarly wrong. Nothing in the Commission's Access Reform Order or its rules indicates that interexchange carriers providing service to ISPs utilizing a LEC's access services would themselves not pay access charges or that an interexchange carrier presubscribed to an ISP line would not pay the PICC charge.[32]

## III. REMOVAL OF AMOUNTS FROM THE TIC

AT&T and MCI contend that LECs' tariffs should be suspended and investigated due to a variety of issues related to the TIC. As BellSouth discusses below, these commenters have not shown that there is any basis for an investigation of BellSouth's tariff filing in this regard.

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29 *Id.*, ¶ 348.

30 Section 69.152 states, "End user common line for price cap local exchange carriers. (a) A charge that is expressed in dollars and cents per line per month shall be assessed upon <u>end users</u>...." [Emphasis supplied.]

31 Section 69.153 states, "Presubscribed interexchange carrier charge (PICC)....(b) If an end-user customer does not have a presubscribed interexchange carrier, the local exchange carrier may collect the PICC directly from the <u>end user</u>." [Emphasis supplied.]

32 For instance, the PICC charge is to be assessed "upon the subscriber's presubscribed interexchange carrier...." Section 69.153(a).

### A. Development of Tandem to Total TIC Factor

AT&T contends that BellSouth and several other LECs erred by using "flawed ratios" to develop their tandem switching to total TIC factors, and provides its Exhibit D showing the purportedly correct calculation.[33] BellSouth did not err as AT&T believes. Rather, it is AT&T which has made the mistake, and several, at that. First, AT&T's Exhibit D uses data from the wrong BellSouth tariff filing. Transmittal No. 165, used by AT&T, was revised by BellSouth in Transmittal No. 178, filed December 23, 1993. Second, AT&T determined the amount for the total original tandem switching revenue requirement (column B) by multiplying the amount for 20% of the tandem switching revenue requirement from the former transmittal, Transmittal No. 165, as shown in AT&T's column A, by 5. Not only was the amount in column A wrong, because it was later revised by Transmittal No. 178, but there was no need to multiply it by 5 to obtain the total original tandem switching revenue requirement. That total amount was itself shown in Transmittal No. 178. Third, AT&T failed to include the Directory Assistance interconnection impact in the calculation of the original 1993 TIC.

In Exhibit A, which is attached hereto, BellSouth populates AT&T's table with the correct amounts from Transmittal No. 178. As can be seen, when the correct data is used, AT&T's own analysis, based upon its own exhibit but with the correct data, shows that BellSouth committed no error.

### B. Recalculation of Common Transport Rates

The Commission's new access reform rules required LECs with the instant filing to recalculate common transport rates using, *inter alia,* actual minutes of use.[34] BellSouth

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[33] AT&T at 17 and Exhibit D.

[34] Section 69.111(c)(1).

recalculated its common transport rates consistent with this rule, using actual minutes of use, the actual copper to fiber ratio, and DS1 and DS3 direct-trunked rates. As such, the common transport rates are "presumed reasonable."[35]

AT&T questions LECs' common transport rates because, for many LECs, the proposed common transport rates are lower than the existing common transport rates, and the shift was an increase in revenue to the TIC rather than to common transport. Once again, AT&T is asking for its expectations to trump reality. Moreover, it is ignoring the "presumed reasonableness" of rates calculated in accordance with the cited rule. Finally, in determining whether revenues are shifted back to the TIC or not, the analysis is incomplete without considering revenues associated with the new common transport multiplexers created in this filing in accordance with the Commission's rules. The costs of those multiplexers had been recovered previously in the common transport minute of use rates. When BellSouth's reinitialized common transport rate revenues are combined with the revenues associated with the common transport multiplexer revenues, the net effect is a shift in revenues from the TIC to common transport.[36]

### C. Application of Adjustments to July 1, 1997 TIC

AT&T contends that LECs should apportion their marketing and COE maintenance exogenous cost changes to the residual TIC and that the Access Reform Order requires LECs to use the June 30, 1997 TIC in calculating the initial residual TIC.[37] These contentions are flawed.

AT&T's assertion that LECs should have used the June 30, 1997 TIC ignores the fact that an annual filing has occurred since June 30, 1997 Rate reductions occurred in that filing, and

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35 *Id.*

36 Appendix B, Exhibit 1, line 14, and Exhibit 4, line 7.

37 AT&T p.28 and n. 25.

BellSouth correctly accounted for these by reducing the TIC revenue used in the residual TIC calculation. Moreover, the only authority mentioned by AT&T as support for its contention is inapposite. The cited paragraph, in pertinent part, states,

> Price cap LECs will begin reallocation of facilities-based TIC components on January 1. If at that time, any price cap LEC determines that its use of the applicable residual TIC estimate, above, resulted in more PCI reductions being targeted to the interconnection charge in its tariff filing to become effective on July 1, 1997, than were required to eliminate the per-minute interconnection charge, then that price cap LEC shall make necessary exogenous adjustment to its PCIs and SBIs to reverse the effects of the excess targeting.[38]

Although this paragraph does require price cap LECs to make PCI and SBI adjustments for excess targeting in the July 1, 1997 filing, as a part of their filings to become effective January 1, 1998, it does not require the use of the June 30, 1997 TIC.

In any event, BellSouth did not have excess targeting to the TIC. In fact, as shown in Appendix B, Exhibit 4, line 14 of Transmittal No. 434, there is a remaining residual TIC of $13,574,876 after the required adjustments are made.[39]

As to AT&T's argument regarding the apportionment of marketing and COE maintenance exogenous cost changes to the TIC, AT&T is also wrong. BellSouth showed its calculation of the exogenous cost changes resulting from the marketing and COE maintenance rule changes. These costs, which include a proportionate amount of administrative costs, were used to make the appropriate exogenous cost changes at the basket level. BellSouth allocated these amounts to the

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38 Access Reform Order, ¶ 237.

39 AT&T contends that the June 30, 1997 TIC revenue should be used in calculating the excess targeting of the TIC and that the targeted TIC from the annual filing should be subtracted after the ordered TIC adjustments are made. However, BellSouth used the July 1, 1997 TIC revenue which includes the targeted TIC adjustments from the annual filing. Therefore, there was no need to make these adjustments again after the ordered TIC adjustments were made. Mathematically, these methodologies would produce the same excess targeting amount.

appropriate service categories and subcategories based upon BellSouth's price cap revenues as of the time of the filing, *i.e.*, subsequent to BellSouth's annual access tariff filing. Use of such existing revenues is consistent with, and required by, the Commission's Tariff Review Plan. AT&T apparently wants BellSouth to pretend that the July 1997 annual access tariff filing did not take place, but that is simply not the case. The Commission should, therefore, reject AT&T's contentions in this regard.

**D. Zone Differentiation Cost Removal**

AT&T states that BellSouth incorrectly failed to remove from the TIC exogenous costs associated with the establishment of rates which vary by zone.[40] The Commission's rules require the removal of amounts from the TIC associated with the establishment of zone rates for switched transport.[41] However, AT&T is incorrect that BellSouth acted incorrectly in this regard.

Although BellSouth does have the authority to establish switched transport rates which vary by zone, it does not presently have any such rates within price caps. Thus, there was no zone differentiation cost to identify or move.

As BellSouth explained in its filing, it recently filed as a new service an Area Commitment Plan for switched transport pursuant to which some rates vary by zone.[42] This filing is presently considered a new service under the Commission's price cap rules and, as such, the revenues are not included in any of the price cap baskets.[43] Therefore, the upward exogenous cost change to the trunking basket, to balance the downward exogenous cost change to the TIC, would not flow

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40 AT&T at 30.

41 Section 69.123(f).

42 Transmittal No. 434, Description and Justification ("D&J"), Section 3.2.9.

43 Sections 61.61.46(b), 61.47(b), 61.49(g)(2).

to the revenues for which the exogenous cost change is intended. The correct time in which to make the exogenous change is the first filing in which such a new service is included in price caps which, for BellSouth's new Area Commitment Plan for switched transport, will be BellSouth's 1998 Annual Access Tariff Filing.[44]

### E. Tandem Trunk Port and SS7 Costs

MCI contends that LECs improperly removed tandem trunk port and SS7 costs from the tandem revenue requirement without adjusting it for the change in the PCI since 1993.[45] MCI is wrong. Although the Commission specifically required that tandem switching amounts be removed from the existing TIC based upon the same proportionate amount such costs bore to the 1993 TIC revenue, no such requirement was established for SS7 or tandem trunk port costs. It is evident from the explicit requirement established for the tandem switching amounts that if the Commission had intended the same treatment for other elements, its rules would have so provided.

BellSouth correctly followed the detailed methodology, ordered by the Commission, when calculating the tandem revenue requirement.[46] When referring to the required SS7 and tandem trunk port adjustments, the Commission specifically states:

> ...incumbent LECs must identify the portion of the tandem-switching revenue requirement currently in the TIC that they reallocate to each rate element, including, as applicable, SS7 signaling, tandem port <u>costs</u>, or other rate elements.[47]

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44 *Id.*

45 MCI Comments at 7; MCI Petition at 8.

46 Access Reform Order, ¶¶ 197-198.

47 *Id.* at ¶ 198 [emphasis added].

There is no reference to a PCI adjustment. Furthermore, BellSouth appropriately removed only the 80% of the SS7 and tandem trunk port costs, which were included in the TIC, from the tandem revenue requirement. As can be seen, it is not BellSouth that is somehow incorrectly attempting to minimize "the facilities TIC" to further its interests, as MCI contends,[48] but, rather, it appears that it is MCI which seeks to bend the Commission's rules in an attempt to minimize tandem switching costs to somehow further its own interests.

### F. Jurisdiction of Tandem Trunk Port Demand

MCI also indicates that "[f]or some LECs" it is unclear whether the demand for tandem trunk ports used in the calculation of the tandem trunk port revenue requirement reflects only interstate demand.[49] For BellSouth, it is clear that interstate amounts are used, as Transmittal No. 434's Appendix B, Exhibit 5, lines 12 and 13, and column "Interstate Demand Units" indicates.

## IV. BELLSOUTH REMOVED THE PROPER AMOUNTS OF LINE PORT AND TRUNK PORT COSTS FROM LOCAL SWITCHING

The Commission's new Part 69 rules provide that LECs must move line port costs from local switching to common line.[50] End office trunk port costs are to be removed from local switching and used to establish the new local switching trunk port service category.[51] BellSouth's filing explained the manner in which such port costs were identified, provided cost quantities, and showed the exogenous cost change reduction in local switching and addition to common line.[52]

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48 MCI Petition at 7.

49 MCI Comments at 9.

50 Section 69.306(d).

51 Sections 69.106(f)(1); 61.42(e)(1)(v).

52 Transmittal No. 434, D&J, Appendix B.

AT&T and MCI contend that the Commission should suspend and investigate the tariff filings of all LECs due to inadequate cost support for these items, variations among LECs in cost amounts removed, and use of an improper methodology to determine exogenous cost amounts. BellSouth addresses each of these contentions below and shows that there is no basis for a suspension or investigation of BellSouth's tariff in this regard.

**A. Adequacy of Cost Support**

AT&T, although not identifying BellSouth specifically, contends that the filing LECs in general have provided inadequate cost support for the line port costs removed from Local Switching.[53] AT&T states that LECs have relied upon "internal, proprietary, and non-verifiable sources of information," such as the Switching Cost Information System ("SCIS'), for which the Commission has not established the appropriate "ground rules."[54] Specifically, it contends that SCIS is a "forward-looking incremental cost model" which cannot be used to identify embedded costs.[55] AT&T contends that, at a minimum, the LECs should provide "input values and cost scenarios,"[56] and MCI contends that LECs should provide "access to the model [and] the inputs."[57]

As a preliminary matter, the Commission should reject these commenters' notions that the Commission must investigate SCIS or provide access to the model to commenters as a part of an investigation. The Commission and an independent auditor have already made an exhaustive

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53 AT&T at 6-9.

54 AT&T at 6-7.

55 AT&T at 8.

56 AT&T at 6.

57 MCI Comments at 3; MCI Petition at 3.

review of SCIS in a separate proceeding.[58] Moreover, the SCIS model was used by BellSouth in a manner different than what these commenters apparently believe. With the exception of ISDN line port costs, SCIS was used only to identify the proportion of NTS total dollar port investment to total local switch investment for each of the three major switch types in BellSouth. The actual investment and lines per switch were obtained from company network and accounting records.

Specifically, BellSouth identified total switching investment from accounting records showing the actual embedded investment in each switch type. SCIS was used to identify what portion of this investment, on a total dollar basis,[59] is NTS investment associated with line ports[60] for each of the three main switch types, DMS, 1A and 5E. For other miscellaneous switch types, which constitute only a small portion of total switching investment, the NTS portion associated with the most closely analogous of these three switch types was used. These NTS ratios were then applied to the actual investment by switch type in each of BellSouth's 1,650 wire centers to obtain NTS investment by switch type by wire center. The line count for each switch type in each wire center was determined from company operating records.

For line ports, a unit investment value per line port was determined by dividing the identified NTS line port investment amount for each switch type by wire center by the line count for that switch type in that wire center. A unit investment was calculated for each wire center for

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[58] *See* Open Network Architecture Tariffs of Bell Operating Companies, Order, CC Docket No. 92-91, 9 FCC Rcd 440 (1993).

[59] BellSouth used the total dollar option and the average unit investment in SCIS, not the incremental unit investment option as commenters contend.

[60] ISDN and common channel signaling NTS costs were excluded from this analysis of subscriber ports as well as from BellSouth's analysis of analog and digital trunk ports.

analysis purposes. A weighted total company NTS unit investment for line ports was then calculated.

Analog and digital port unit investments were determined for each switch type. The ratio of trunk port unit investment to line port unit investment was developed using SCIS.[61] This ratio was applied to embedded line port investment to obtain the embedded trunk port unit investment. The weighted average NTS unit investments were finally determined by dividing total trunk port investment for all office types by the appropriate total trunk port count, *e.g.*, analog for analog and digital for digital.

ISDN line port costs were determined using SCIS with the average unit investment option. The use of SCIS for this purpose is fully justified. The costs being established for this filing are 1996 costs, and the current cost inputs to SCIS are 1996 vintage. For BellSouth, all ISDN installations are of relatively recent vintage, with very few installations having occurred prior to 1996. Thus, the use of SCIS and its 1996 current costs reasonably reflect the costs of ISDN. BellSouth has, however, identified an error in its calculation of ISDN line port costs[62] and is making the appropriate revisions in Transmittal No. 435.

### B. Variation Among LECs of Cost Amounts or Portions

AT&T and MCI state that an investigation is needed into LECs' line port cost amounts due to the variation in results from LEC to LEC.[63] Both AT&T and MCI point to the removal by

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[61] As with the use of SCIS for development of the NTS to total switching investment described previously, *see* n. 12 and accompanying text, BellSouth used the total dollar option and the average unit investment in SCIS to develop this ratio.

[62] In particular, line investment was divided by installed lines rather than in-service lines to obtain per line unit cost amounts.

[63] AT&T at 9; MCI Comments at 5-6; MCI Petition at 5. It should be noted that AT&T provides two different percentages for BellSouth's line port exogenous cost to local switching